

Botswana Insurance Holdings Limited

Reissued

Abridged Audited Group Results for the year ended 31 December 2017

The Directors hereby present the abridged audited consolidated financial results of Botswana Insurance Holdings Limited (BIHL) and its subsidiaries (the ‘Group’) for the year ended 31 December 2017.

Key Highlights

Revenue

↑

Net insurance premium income **increased** by an impressive **12%** to

P2.32billion

↑

Fee income **increased** by **13%** to

P103million

↓

Value of new business **decreased** by **8%** to

P149million

Assets Under Management

↑

Assets under management **increased** by **4%** to

P26.7billion

Earnings

—

Operating profit remained flat at

P333million

↓

Core earnings **decreased** by **7%** to

P346million

↓

Profit attributable to equity holders **decreased** by **27%** to

P349million

Embedded Value

↓

Embedded value **decreased** marginally by **2%** to

P4.26billion
(December 2016: P 4.34 billion)

Return on Group Embedded Value is

7%
(December 2016: 15.2%)

Dividends

P342.9million

paid as dividends during the period (2016: P 342.9 million)

P189.2million

Final normal dividend proposed of (gross of tax)

P98.8million

Special dividend proposed of (gross of tax)

Solvency

Business is well capitalised, required capital for the group subsidiaries is covered

5.3 times
(December 2016: 6.6 times)

Group Consolidated Income Statement

	31 Dec 2017 P'000	31 Dec 2016 P'000 Restated
Revenue		
Net insurance premium income	2,320,046	2,074,927
Gross premium income - recurring	1,250,581	1,112,159
- single	1,100,679	989,876
Insurance premiums ceded to reinsurers	(31,214)	(27,108)
Investment income	719,019	3,203
Fee revenue	103,075	91,176
Investment income	637,890	752,120
Profit on sale of associates	12,993	-
Net losses on financial assets held at fair value through profit or loss	(34,939)	(840,093)
Total revenue	3,039,065	2,078,130
Net insurance and investment contract benefits and claims	(2,027,157)	(1,104,613)
Gross insurance benefits and claims	(1,381,519)	(1,541,590)
Reinsurance claims	6,992	8,371
Change in liabilities under investment contracts	(64,932)	676,641
Change in policyholder liabilities under insurance contracts	(588,217)	(248,141)
Change in contract liabilities ceded to reinsurers	519	106
Expenses	(660,457)	(622,819)
Sales remuneration	(336,294)	(312,255)
Administration expenses	(324,163)	(310,564)
Profit before share of profit of associates and joint ventures	351,451	350,698
Share of profit of associates and joint ventures	72,927	224,671
Profit before tax	424,378	575,369
Tax expense	(76,092)	(100,581)
Profit for the year from continuing operations	348,286	474,788
Discontinued operations		
Profit for the year from discontinued operations	1,041	524
Profit for the year	349,327	475,312
Profit attributable to:		
- Equity holders of the parent from continuing operations	348,016	473,589
- Equity holders of the parent from discontinuing operations	1,041	524
- Non-controlling interests	270	1,199
	349,327	475,312

Earnings per share (thebe) attributable to ordinary equity holders of the parent		
- Basic	127	173
- Diluted	126	171
Earnings per share (thebe) from continuing operations		
- Basic	126	173
- Diluted	125	171
Number of shares for calculating earnings per share		
Number of shares in issue	282,370,652	281,070,652

Group Consolidated Statement of Comprehensive Income

	31 Dec 2017 P'000	31 Dec 2016 P'000 Restated
Profit for the year	349,327	475,312
Other comprehensive income		
Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax)		
Exchange differences on translation of foreign operations	(33,589)	(145,686)
Total comprehensive income for the year	315,738	329,626
Total comprehensive income attributable to:		
- Equity holders of the parent	314,427	327,903
- Equity holders of the parent from discontinuing operations	1,041	524
- Non-controlling interests	270	1,199
	315,738	329,626

Group Consolidated Statement of Financial Position

	31 Dec 2017 P'000	31 Dec 2016 P'000
Assets		
Property and equipment	155,812	156,006
Intangible assets	95,868	100,357
Investment property	112,101	110,747
Investments in associates and joint ventures	1,669,561	1,878,439
Long term reinsurance assets	2,417	2,936
Non -current assets held for sale	-	94,396
Financial assets at fair value through profit or loss	12,997,235	11,024,458
- Bonds (government, public authority, listed and unlisted corporates)	7,585,630	7,036,769
- Investment in property funds and companies	244,021	153,584
- Equity investments (local and foreign)	3,656,189	3,322,194
- Policy loans and other loan advances	496,229	416,530
- Money market instruments	1,015,166	95,381
Insurance and other receivables	291,330	203,977
Tax refund due	4,618	248
Cash, deposits and similar securities	196,779	819,280
Total assets	15,525,721	14,390,844
EQUITY AND LIABILITIES		
Equity attributable to equity holders of the parent		
Stated capital	154,936	130,821
Non distributable reserves	440,014	444,269
Retained earnings	2,301,557	2,341,425
Total equity attributable to equity holders of the parent	2,896,507	2,916,515
Non-controlling interests	16,823	20,583
Total equity	2,913,330	2,937,098
Liabilities		
Policyholder liabilities under:	12,218,342	10,956,497
- Insurance contracts	9,388,540	8,800,323
- Investment contracts	2,829,802	2,156,174
Deferred tax liability	9,749	17,620
Insurance and other payables	365,808	459,773
Non life insurance contract liabilities	14,358	9,525
Tax payable	-	4,083
Related party balances	4,134	6,248
Total equity and liabilities	15,525,721	14,390,844

Group Consolidated Statement of Changes in Equity

	Stated capital P'000	Non-distributable reserves P'000	Retained earnings P'000	Total equity attributable to equity holders of parent P'000	Non controlling interests P'000	Total equity P'000
For the year ended 31 December 2017						
As at 1 January 2017						
Opening balances	130,821	444,269	2,341,425	2,916,515	20,583	2,937,098
Profit for the year	-	-	349,057	349,057	270	349,327
FCTR Movement	-	(33,589)	-	(33,589)	-	(33,589)
Dividend paid	-	-	(342,906)	(342,906)	(4,030)	(346,936)
Transfers from non-distributable reserves to retained earnings	-	26,946	(26,946)	-	-	-
Other movements in reserves	24,115	2,388	9,747	36,250	-	36,250
Change in reserve in associates	-	-	(28,820)	(28,820)	-	(28,820)
Balances at 31 December 2017	154,936	440,014	2,301,557	2,896,507	16,823	2,913,330

For the year ended 31 December 2016						
As at 1 January 2016						
Opening balances	130,821	484,681	2,297,106	2,912,608	18,474	2,931,082
Profit for the year	-	-	474,112	474,112	1,199	475,311
FCTR Movement	-	(145,686)	-	(145,686)	-	(145,686)
Dividend paid	-	-	(342,906)	(342,906)	-	(342,906)
Transfers from non-distributable reserves to retained earnings	-	100,588	(100,588)	-	-	-
Other movements in reserves	-	4,686	13,701	18,387	910	19,297
Balances at 31 December 2016	130,821	444,269	2,341,425	2,916,515	20,583	2,937,098

Group Consolidated Statement of Cash Flows

	31 Dec 2017 P'000	31 Dec 2016 P'000
Cash generated from operations	1,182,883	985,603
Net cashflows utilised in investing activities	(1,805,384)	(1,221,409)
Net decrease in cash and cash equivalents	(622,501)	(235,806)
Cash and cash equivalents at the beginning of the period	819,280	1,055,086
Cash and cash equivalents at the end of the period	196,779	819,280
Represented by:		
Cash deposits and similar securities	82,368	718,803
Funds on deposit	114,411	100,477
	196,779	819,280

Directors:
Batsho Dambé-Groth (Chairperson)
Catherine Lesetedi (Group CEO)
Gaffar Hassam ***
Chandra Chauhan
Gerrit van Heerde**
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Group Embedded Value for the period ended 31 December 2017

DEFINITION OF EMBEDDED VALUE

The embedded value represents an estimate of the economic value of the company excluding the value attributable to future new business and the value attributable to minority interests. The embedded value comprises:

- > The value of the shareholders' net assets;
- > Fair value adjustments; and
- > The value of in-force business.

The value of in-force business is the present value of future after-tax profits arising from business in force at the valuation date, discounted at the risk discount rate, and adjusted for the cost of capital required to support the business.

	31 Dec 2017 P'000	31 Dec 2016 P'000
Embedded value results		
Shareholders' net assets after fair value adjustments	2,830,554	2,850,554
Shareholders' net assets, excluding goodwill	2,830,554	2,850,554
Value of in-force	1,431,755	1,488,832
Value before cost of capital	1,500,004	1,406,461
Fair value adjustments	56,362	239,404
Cost of capital	(124,611)	(157,033)
Embedded value at end of period	4,262,309	4,339,386
Required Capital	529,539	429,524
Required Capital Cover	5.3	6.6
Embedded value per share (Pula)	15.09	15.44

Embedded value earnings

Embedded value at 31 December 2017	4,262,309	4,339,386
Embedded value at beginning of period	4,339,385	4,157,433
Change in embedded value	(77,074)	181,952
Movement in capital	39,977	108,490
Dividends paid	342,906	342,906
Embedded value earnings	305,808	633,349

Return on embedded value

These earnings can be analysed as follows:		
Expected return on life business in force	126,292	117,089
Value of new business	159,368	172,275
Value at point of sale	148,516	161,575
Expected return to end of period	10,852	10,700

Operating experience variances	(38,224)	(6,252)
Mortality/Morbidity	18,253	24,860
Persistency	(14,059)	(31,305)
Expenses	(31,487)	(18,895)
Other	(10,931)	19,089
Operating assumption changes	112,003	84,760
Mortality/morbidity	19,180	2,183
Persistency	1,347	78,170
Expenses	35,918	3,394
Other	55,558	1,014

Embedded value earnings from operations

Investment variances	38	(44,516)
Economic assumption changes	33,284	33,535
Investment return	2,449	3,241
Risk discount rate	30,835	30,294

Embedded value earnings from covered business

Return on shareholders assets	96,089	200,382
Investment Returns	(10,623)	11,788
Net profit non-life operations	106,712	188,594

Change in shareholders' fund adjustments	(183,042)	77,349
Changes in treasury share adjustments	2,798	3,429
Movement in fair value of incentive scheme shares	19,331	(1,883)
Movement in present value of holding company expenses	319	(15,658)
Movement in other net worth adjustments	(205,490)	91,461

Embedded value earnings

a) Value of new business		
Value of new business at point of sale	148,516	161,575
Value before cost of capital	154,753	171,170
Recurring premium	91,597	94,991
Single premium	63,156	76,179
Cost of capital	(6,237)	(9,595)
Expected return to end of period	10,852	10,700

b) Fair value adjustments

Staff share scheme	(33,182)	(52,512)
Non-life operations write-up to fair value (BIFM and LG)	173,627	101,436
Non-life operations write-up to fair value (other)	(86,182)	191,499
Group holding expenses	(116,715)	(117,034)
Reversal of cross holding adjustment	118,813	116,016
Total	56,361	239,404
Consisting of:		
Value of In Force adjustments	56,361	239,404

Commentary

ECONOMIC ENVIRONMENT

Global economic growth in 2017 was higher and more synchronised than the prior year. Global output is estimated to have grown by 3.7%, an increase of 50 basis points from 2016. In the US, there is still some uncertainty as to the medium to long-term impact of the recent changes in tax policy. Favourable effects of stronger commodity prices in general and oil in particular, should drive growth in commodity-exporting countries.

Botswana's Gross Domestic Product (GDP) growth rate is estimated to have been at 4.7% for 2017, half a percentage point higher than the previous year on the back of increased diamond demand. The non-mining sector performance was led by trade, tourism and leisure and financial services sectors.

Despite inflation oscillating during 2017, there was an overall increase during the year, having started at 2.8% to close at 3.2% at end of December. The Bank of Botswana cut the Bank rate by 50 basis points in October 2017. GDP growth is projected to be around 4.8% in 2018, largely driven by the positive outlook on global economic growth, recovery in commodity prices, local political landscape and public investment. We believe that the demand for commodities, particularly precious stones will continue to improve given positive global growth prospects.

At the beginning of January 2017, the Pula exchange rate mechanism was adjusted slightly. The basket weights were unchanged (55% SDR, 45% SA rand), but the rate of crawl was changed from an upward crawl at an annual rate of 0.26% in 2017 to a downward annual crawl of 0.30% in 2018. The basic mechanism of the pegged exchange rate remains unchanged and the rate of crawl remains close to zero.

ACCOUNTING POLICIES AND PRESENTATION

The accounting policies adopted for the period comply in all material respects with International Financial Reporting Standards (IFRS) and are presented in the manner required by the Botswana Insurance Industry Act (CAP 46:01) and the Companies Act of Botswana (CAP 42:01). These policies are consistent with those applied for the year ended 31 December 2016.

FINANCIAL OVERVIEW

Analysis of earnings	31 Dec 2017 P'000	31 Dec 2016 P'000 Restated	% change
Operating profit	333,142	333,152	0%
Investment income on shareholders' assets	13,266	38,621	-66%
Core Earnings	346,408	371,773	-7%
Profit on sale of associate	12,993	-	-
Share of profit of associates and joint ventures net of tax	72,927	224,670	-68%
Investment losses surpluses on shareholders assets	(7,950)	(21,076)	-62%
Profit before tax	424,378	575,367	-26%
Tax	(76,091)	(100,579)	-24%
Profit after tax	348,286	474,788	-27%
Profit for the year from discontinued operations	1,041	524	99%
Minority shareholders' interest	(270)	(1,199)	-77%
Profit attributable to ordinary shareholders	349,057	474,113	-26%

Operating profit for the life business was flat on prior year before taking out one-off separation costs related to the streamlining exercise. The one-off separation costs resulted in an 8% decline in the life business operating profits compared to prior year. The asset management business performed very well at 18% above prior year due to an increase in assets under management, while general insurance business was positively impacted by lower claims and reduced operational costs. Share of profits of associates and joint ventures decreased by 68% due to the significant impairment of the Letshego Holdings Limited (Letshego) investment as a result of a drop in fair value. Funeral Services Group, Botswana Insurance Company Limited and NICO reported satisfactory growth compared to last year.

Investment income which comprises dividend income and interest income reduced significantly compared to prior year due to a once off income received last year. Investment losses were incurred on shareholders' assets and that can primarily be ascribed to under performance in global equity markets, this area remains susceptible to market volatility.

Embedded value

The Group's embedded value decreased marginally to P4.26 billion as compared to December 2016 year end level of P4.34 billion. The embedded value allows for P342.9 million dividends paid during the period.

Value of new life business

The value of new life business decreased by 8% to P149 million compared to the prior year. Value of new business was subdued mainly due to lower margins on the annuity line.

OVERVIEW OF OPERATIONS

For management purposes, the group is organised into three principal business areas based on their products and services and these make up the three reportable operating segments as follows;

- The life insurance segment which provides life insurance services to its customers through Botswana Life Insurance Limited, Botswana's leading life insurance company, a full subsidiary of the Group
- The asset management segment which provides asset management services to its customers through Botswana Insurance Fund Management Limited, a full subsidiary of the Group
- The general insurance segment which provides legal insurance to its customers through BIHL Insurance Company Limited, a full subsidiary of the Group
- BIHL also has associate and joint venture holdings of 26.17% in Letshego Holdings Limited, 35.8% in Funeral Services Group (FSG), 50% in Botswana Insurance Company Limited and 25.1% in NICO Holdings Limited (Malawi)

Inter-segment transactions that occurred during 2017 and 2016 between business segments took place on an arm's length basis in a manner similar to transactions with third parties. Segmental income, segment expense and segment results include those transfers between business segments, which are eliminated on consolidation.

The sources of revenue for segments included under "Other" segments are Unit Trust business, Holding Company and the Corporate Social Investment Trust.

SEGMENT RESULTS

For the year ended 31 December 2017	Life Business P'000	Asset Management P'000	General insurance P'000	Associates and joint ventures P'000	Other P'000	Inter Segmental P'000	Consolidated P'000
Premium revenue	2,320,046	-	-	-	-	-	2,320,046
Fee revenue	-	2,380	-	-	-	(2,380)	-
- Internal	-	2,380	-	-	-	-	-
- External	-	118,017	-	-	(14,942)	-	103,075
Profit on sale of associates	-	12,993	-	-	-	-	12,993
Investment income	475,307	157,621	-	-	412,525	(407,563)	637,890
Fair value gains and losses	54,927	(89,820)	-	-	-	(46)	(34,939)
Total net income	2,850,280	201,191	-	-	397,583	(409,989)	3,039,065
Policyholder benefits paid	(1,374,527)	-	-	-	-	-	(1,374,527)
Change in liabilities under investment contracts	-	(64,932)	-	-	-	-	(64,932)
Change in policyholder liabilities under insurance contracts	(587,698)	-	-	-	-	-	(587,698)
Administration expenses	(224,132)	(58,036)	-	-	(44,964)	2,969	(324,163)
Selling expenses	(336,294)	-	-	-	-	-	(336,294)
Profit before share of profit of associates and joint ventures	327,629	78,223	-	-	352,619	(407,020)	351,451
Share of profit of associates and joint ventures	-	11,336	10,621	50,970	-	-	72,927
Tax expense	(70,935)	(11,269)	-	-	(18,468)	24,580	(76,092)
Profit for the year from continuing operations	256,694	78,291	10,621	50,970	334,151	(382,440)	348,286
Profit for the year from discontinued operation	-	-	1,041	-	-	-	1,041
Profit for the year	256,694	78,291	11,662	50,970	334,151	(382,440)	349,327

For the year ended 31 December 2016 (restated)	Life Business P'000	Asset Management P'000	General insurance P'000	Associates and joint ventures P'000	Other P'000	Inter Segmental P'000	Consolidated P'000
Premium revenue	2,074,927	-	-	-	-	-	2,074,927
Fee revenue	-	3,054	-	-	-	(3,054)	-
- Internal	-	3,054	-	-	-	-	-
- External	-	93,398	-	-	(2,222)	-	91,176
Investment income	517,087	228,507	-	-	338,016	(331,490)	752,120
Fair value gains and losses	57,000	(887,596)	-	-	(9,497)	-	(840,093)
Total net income	2,649,014	(562,637)	-	-	326,297	(334,544)	2,078,130
Policyholder benefits paid	(1,533,220)	-	-	-	-	-	(1,533,220)
Change in liabilities under investment contracts	-	676,641	-	-	-	-	676,641
Change in policyholder liabilities under insurance contracts	(248,035)	-	-	-	-	-	(248,035)
Administration expenses	(197,108)	(46,433)	-	-	(42,334)	(24,689)	(310,564)
Selling expenses	(312,254)	-	-	-	-	-	(312,254)
Profit before share of profit of associates and joint ventures	358,397	67,571	-	-	283,963	(359,233)	350,698
Share of profit of associates and joint ventures	-	17,237	5,482	201,953	-	-	224,671
Income tax expense	(83,521)	(18,967)	-	-	(22,414)	24,321	(100,581)
Profit for the year from continuing operations	274,876	65,841	5,482	201,953	261,549	(334,912)	474,788
Profit for the year from discontinued operation	-	-	524	-	-	-	524
Profit for the year	274,876	65,841	6,006	201,953	261,549	(334,912)	475,312

SEGMENT ASSETS AND LIABILITIES

	Life Business P'000	Asset Management P'000	General insurance (discontinued operations) P'000	Other P'000	Inter Segmental P'000	Consolidated P'000
At 31 December 2017						
Total Assets	11,924,025	6,117,539	54,031	1,936,207	(4,506,081)	15,525,721
Total Liabilities	9,796,902	5,663,569	37,565	1,207,412	(4,093,057)	12,612,391
At 31 December 2016						
Total Assets	11,303,499	5,560,917	37,225	2,617,721	(5,128,518)	14,390,844
Total Liabilities	9,204,701	4,958,544	21,800	1,515,965	(4,247,263)	11,453,747

Life insurance business

Net Premium Income grew by 12% from P2.07 billion in 2016 to P2.32 billion in 2017, with all income lines posting a growth of at least 7% and above. Total new business written grew 11% underpinned by strong single premium income performance. Recurring premium income grew by an impressive 12% from P1.09 billion in December 2016 to P1.22 billion in 2017. This line represents a sustainable source of profits in the long term.

The value of new business, which represents the present value of future profits from new business premiums written during the year, decreased by 8% from prior year owing to reduced margins. Operating profit was flat on prior year before taking out one-off separation costs related to the streamlining exercise. The once-off project costs saw operating profit decrease from P356 million in 2016 to P328 million in 2017.

During the year, the company embarked on a streamlining exercise. The project has been successfully completed and is expected to deliver efficiencies and optimal resource utilization which will make the business more competitive going forward.

The company launched a game changing life cover product named Poelo which is steadily growing the retail new business numbers. In addition, another variation of the new life cover product, Poelo Whole of Life was launched aimed at benefiting members with a lifetime cover, with a premium payback of 120% after 15 years. The launch of these products demonstrates our agility and commitment to innovation and predicting customer needs.

The prospects for the economy remain mixed reflecting both international economic uncertainty as well as domestic challenges. Despite these challenges, Management is focused on delivering sustainable growth and value to its stakeholders through innovation driven by commercial insights.

Asset management business

The BIFM group achieved pleasing results for the year 2017. Operating profit increased by 18% year on year. This good performance is attributable to stable market performance, and an increase in AUM. The Zambia business did well due to stable market performance and a favourable Kwacha performance. All these factors had a positive impact on asset management fee income. We continue to efficiently manage and control costs across all businesses to ensure good overall business performance. Total Assets Under Management for the year were P26.7 billion including Zambia's P4.1 billion compared to P25.9 billion at the close of prior year.

Short term insurance business

Premium income was 6% lower than for the previous year mainly due to increasing defaults from clients failing to meet their premium obligations. Improved claims administration on the new administration platform saw operating profit increasing from P0.5 million in 2016 to P1.3 million in 2017. This is a commendable result considering the one-off restructuring costs amounting to P2 million that were incurred during the year.

Going forward the system is expected to improve revenue stability, facilitate further improvements in internal process efficiencies and the quality of decision making information which will, in turn, reduce the business' cost base, whilst also, releasing resources to focus on customer experience improvements.

CAPITAL MANAGEMENT AND SOLVENCY

The Group remains well positioned in terms of capital management and solvency. This was taken into consideration by the board when resolving a final dividend. The board has confidence in the Group's ability to maintain dividends at this level while ensuring that its capital position remains solid and aligned with future capital requirements whilst sustaining levels of Return on Group Equity Value. In line with previous communication that the business will exit non-core assets, the proceeds from some of the assets disposed of will be paid out to shareholders as a special dividend.

LOOKING AHEAD

We continue to focus on our key twin strategies of growth and profitability. However, uncertainty in the global markets is expected to continue to affect the results. We would like to thank all our Clients, Brokers, Agents, Staff and other Stakeholders for the on-going partnerships and support and look forward to serving them in the future.

DIVIDEND DECLARATION

The Directors have resolved to award a final dividend of 67 thebe per share (gross of tax) and a special dividend of 35 thebe per share (gross of tax).

The important dates pertaining to the dividends are:

DECLARATION DATE	21 February 2018
Last day to register for dividend	06 April 2018
Payment of dividend	20 April 2018

For and on behalf of the Board
B Dambe-Groth (Chairperson) C Lesetedi (Group CEO)

23 March 2018